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An unending variety of topics

Sunday, December 18, 2005

New book -- *The Origins of Value*

I recently found a delightful new book, *The Origins of Value: The Financial Innovations That Created Modern Capital Markets*, edited by Goetzmann and Rouwenhorst. Besides the wonderful pictures (it doubles as coffee-table book), it contains a variety of articles on the precursors and antecedents of modern trade in stocks, debt, and financial instruments. Each article is (co-)written by different noted authorities in the history of financial markets.

Just some of the highlights: tallies, chirographs, Chinese paper money (a kind of sad history paralleling the 20th century experience with government currencies), the Roman *publicani*, Fibonacci on present value, securitization of government debt in Venice and Genoa, the Dutch East India Company (VOC -- the first corporation whose stock was widely traded), a silly defense of John Law (making some noteworthy economic observations justifies coercing and defrauding millions?), and a perpetuity that financed a 17th-century Dutch dike and is still being paid today.

The book is biased towards finding antecedents of surface phenomena of modern capital markets, and thus is narrower than a good history of economic institutions would be. The importance of the legal idea of a corporation as a "person" is briefly noted, for example, but the many tricky legal issues this raises that must be solved before such an institution can become widely viable, the shortcomings of Roman law in this regard (despite the publicani, which are so poorly recorded in the historical record we lack many important details on their legal structure and operations) are not raised. Nor are contributions to corporate law of the Catholic Church, municipalities, and guilds in the Middle Ages (not to mention Western law schools, which first appeared then), long before Dutch East India Company, mentioned. Indeed, most of the important legal issues that must be solved to make modern capital markets possible are just not addressed, despite the vast documentary record of legal codes and decisions from Babylon, Rome, medieval Europe, and other places where such legal breakthroughs were made. Some important issues of trust and security are raised or at least hinted at, but are usually not explored in detail. The crucial role of accounting is given short shrift. There is not a lot of economic theory and it doesn't go much beyond standard financial economics, which may not provide a very good model many of the ancient, high transaction cost eras discussed.

These, however, are just grumbles about how reality always falls far short of the ideals one can envision. After all, the subtitle says "...Financial Innovations...", not accounting or legal or in general institutional innovations that made modern capital markets possible. And I don't know of any single book out there that explores so many episodes of ancient, medieval, and renaissance financial history in such a detailed and colorful way.

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Nick Szabo

"A premier thinker about history, law and economics, and the lessons they have for security." -- Adam Shostack, Emergent Chaos

"Szabo comes out with these essays that leave me in awe." -- Brian Dunbar

"Reading material that is eclectic, challenging and endlessly fascinating." -- Sean McGrath, Propylon

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Posted by Nick Szabo at 10:33 AM

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